

# The Value Propositions of Business-to-Business Dynamic Commerce

This work builds on a previous paper, “The Value Propositions of Dynamic Pricing in Business-to-Business E-Commerce,” which explored the impact of dynamic pricing at two critical touchpoints in the enterprise value chain: sourcing and selling. We extend the definition of dynamic “pricing” to dynamic “commerce” and discover the important role online exchanges play in this emerging space. Our objective is to understand how dynamic commerce drives bottom-line results for innovative businesses through increased revenues, lower costs, and improved processes.

## Introduction

With the advent of e-commerce, businesses now have low-cost, global access to a highly focused and greatly expanded network of stakeholders in their enterprise value chain. One of the most promising opportunities to improve this network is the application of dynamic commerce to an organization’s sourcing and selling activities. Innovators in this space are demonstrating that dynamic commerce is a critical component of business-to-business (B2B) trading relationships, driving significant bottom-line results through increased revenues, lower costs, and improved processes. Furthermore, analysts project that up to one-third of B2B e-commerce in the next several years will be conducted dynamically.

A formal discussion about dynamic commerce would be incomplete without first examining how the concept of dynamic “commerce” differs from that of dynamic “pricing.” The latter describes a process in which goods and services are traded in markets where price adjusts freely to supply and demand. However, pricing is just one of the data points used during the valuation of an offer. Other components of the transaction process include, but are not limited to, searching for and qualifying vendors, comparing offerings, negotiating business terms (price, shipping, packaging), conducting the transaction, fulfilling the purchase, and collecting payment. Since the exchange of goods and services often entails valuation of many variables beyond price, the notion of “commerce” best captures the breadth and complexity of real-world business requirements.

The decision to purchase a new home, for example, requires consideration of a wide range of variables in which price is one factor among many. Other negotiable variables might include condition of the property, move-in dates, mortgage terms, and conditions or inspections. Complicating the process is the fact that many of these variables are negotiable, and vary depending on how they are packaged in the final offer. By providing a centralized, real-time mechanism for negotiating each of these variables, online dynamic commerce improves the ease and efficiency of the entire transaction. Thus, “dynamic commerce” can be defined as the exchange of goods and services in electronic markets where not only price, but also other factors, fluctuate freely while all participants enjoy significantly lower interaction costs.

Dynamic commerce is reshaping existing business practices and simultaneously fueling the growth of entirely new companies, such as marketplace-focused exchanges. The emergence of new interactive networks and the ever-increasing acceptance of e-commerce tools and capabilities are only two of the many factors driving the dramatic growth in this arena. While companies continue to discover innovative ways to apply dynamic commerce technology, it remains the most beneficial mechanism to sell excess, obsolete, or slow-moving inventory as well as time-sensitive, limited, or scarce products. Even more significantly, dynamic commerce is quickly becoming the dominant forum for procuring goods and services.

Our objective is to define the value proposition of dynamic commerce in B2B

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online transactions at two critical touchpoints in the enterprise value chain: sourcing and selling (see Figure 1.0). This paper focuses on the transactional component of dynamic commerce and the emergence of online exchanges. It provides background on the emergence of online dynamic commerce solutions, explains the business benefits of these solutions, and describes specific business applications for dynamic commerce.

## Business Benefits Overview

As we have stated, the Internet is a powerful means to connect buyers and sellers quickly, efficiently, and at a very low cost, whether there are just a few trading partners or thousands. Improvements in the speed and efficiency of conducting commerce have driven several waves of innovation. Sharing product information and enabling online ordering were just the beginning. The new trend involves the integration of dynamic commerce functionality as a critical means for businesses to build a more tightly aligned value chain that also extends across an even broader network of trade and service partners. The benefits of this transformation are significant and immediate as evidenced by the impact on the way innovative businesses source and sell today (see Figure 2.0).

To illustrate the benefits of dynamic commerce, it is useful to first examine the sell-side advantages. Leading U.S. businesses, on average, generate annual

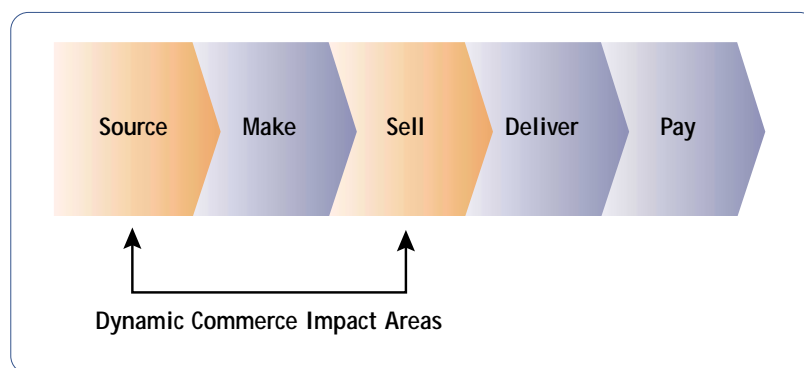


Figure 1.0 Critical touchpoints in the enterprise value chain: sourcing and selling

revenues of \$11 million each from investment recovery activities<sup>1</sup> (investment recovery is revenue from the sale of assets no longer needed by the enterprise). These revenues represent net recoveries from selling surplus and/or excess inventory to third party intermediaries at a significant discount (roughly 20% to 30% of their original market value). The significance of this problem becomes clearer when you analyze in detail the costs that businesses incur in managing and liquidating this inventory. Along with the cost of carrying aged and obsolete inventory, U.S. businesses are required to write down the value of these assets to their true market value. These charges, which can amount to nearly 80% of the original value of the surplus merchandise, are applied against earnings, and thus directly impact the bottom line. The net result is that old and inefficient inventory liquidation practices cause companies either to tie up or consume a tremendous amount of valuable capital, and simultaneously impair their earnings. Early adopters of dynamic commerce applications have taken advantage of the opportunity to reduce the gap between surplus inventory and net recoveries dramatically (see Figure 3.0). In fact, some companies have more than doubled their investment recovery dollars in the course of just a few months (or in some cases, weeks).

Dynamic commerce also offers tremendous benefits for procurement of both direct and indirect goods in the con-

text of short-term (spot) buys and, more importantly, long-term contracts. To gauge the size of this opportunity, large companies spend an average of 36% of sales for indirect goods alone.<sup>2</sup> Given such a sizeable base, even a two percent decrease in purchasing costs quickly improves an organization's margins. Dynamic commerce positively impacts procurement costs in two ways. First, competitive bidding reduces contract costs. Second, it simplifies the RFQ process. Even with e-mail and fax, the labor-intensive process is ripe for significant cost savings and cycle time reduction. By automating this process and implementing dynamic commerce capabilities, companies have managed to cut approximately 15% from the cost of vendor contracts and reduce purchase cycle times by two-thirds<sup>3,4</sup>. With these savings, purchasing teams have more time to focus on critical tasks, such as evaluating vendors and managing the larger, more complex supplier relationships.

Online exchanges are also emerging as a highly effective and, in many ways, a uniquely beneficial model for dynamic commerce. Since they are essentially electronic trading hubs where businesses come together to conduct transactions, exchanges combine the benefits referenced above pertaining to selling and buying applications. Exchanges also alleviate market inefficiencies caused by decentralization of information and fragmentation of buyers and sellers. By providing a centralized conduit for conducting business

### W<sup>2</sup>

### Weblink

For more on dynamic pricing, see:

[wayman.ASCET.com](http://wayman.ASCET.com)

[moai.ASCET.com](http://moai.ASCET.com)

For more on enterprise value chain:

[culotta.ASCET.com](http://culotta.ASCET.com)

For more on B2B e-commerce, see:

[evans.ASCET.com](http://evans.ASCET.com)

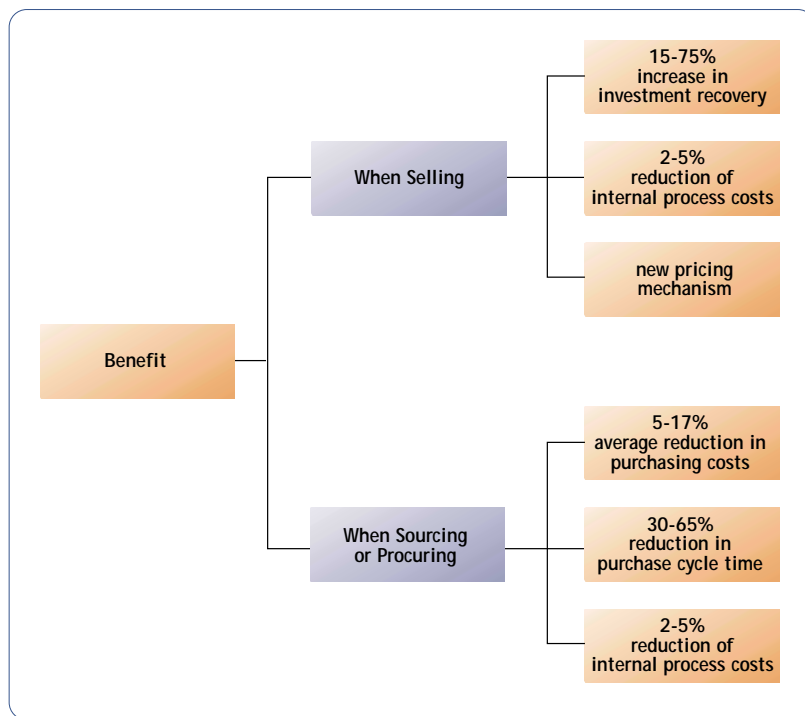
[sprague.ASCET.com](http://sprague.ASCET.com)

For more on customer-facing activities:

[bruce.ASCET.com](http://bruce.ASCET.com)

For more on MROs, see:

[evans.ASCET.com](http://evans.ASCET.com)



**Figure 2.0** Impact on the way innovative businesses source and sell today

online, electronic marketplaces pull together many participants with similar and complimentary interests, creating an online trading community. These communities serve to minimize search and transaction costs inherent in many existing physical markets in which the sheer number of players, as well as the magnitude of geographic and time constraints, act as impediments to commerce. Therefore, participants in exchanges benefit from more efficient communication, greater ease of interaction, better access to market information, and standardized operating procedures. Finally, when they are successful, exchanges create a significant amount of liquidity in the markets they serve, which fuels greater participation.

### An Overview of Dynamic Commerce

Throughout the course of history, changes in the business world have tended to occur in evolutionary patterns sparked by revolutionary ideas. Today, this change occurs at a

much faster pace. As e-commerce achieves critical mass in the business and consumer communities, the “first mover” is no longer guaranteed a competitive advantage. Forward thinking and critical insight into how technology will impact business, and moving to facilitate those changes, will increasingly become the marks of true strategic advantage.

### Shortcomings of Static Pricing

To appreciate the value propositions that dynamic commerce offers B2B e-commerce, one must first understand the shortcomings of static pricing models as well as business trends and changes in technology that are driving this evolution.

For centuries, businesses conducted transactions by bartering (a precursor to dynamic commerce). In the Industrial Age, however, mass production and extended distribution chains encouraged large economies of scale and made face-to-face customer contact impractical. As a result, static (or menu-driven) prices became nec-

essary to manage the sale of the enormous increase in both volume and variety of products over far larger geographic regions. Many businesses realized huge gains, but they lost the ability to interact with customers individually.

Today, menu-driven pricing is the de facto standard for business, and, as a result, people tend to overlook its shortcomings. Static prices are often referred to as “sticky” because they are typically slow to adjust to market conditions, thereby causing a gap between the price that is charged for a good and its actual market value. In light of the proliferation of different product Stock Keeping Units (SKUs), the use of static pricing is not surprising because a tremendous amount of effort is required to determine how to price each item and how to keep pricing catalogs current. But static prices provide only a glimpse of the overall market demand, conveying only whether or not there was a buyer at a given price. As a result, businesses spend a substantial amount of money on market research to help them understand and forecast demand. Enabled by the Internet, dynamic commerce solves the dilemma of “sticky” prices by providing virtually instantaneous knowledge about market demand, such as how many bidders exist, who they are, how motivated they are, and the prices and quantities they desire.<sup>5</sup>

### E-Commerce Trends

The Internet is ushering in a new era of B2B commerce, which has already proven itself a viable channel for marketing and selling to consumers (see Figure 4.0). Widespread Internet access means that consumers possess better market information and greater buying power. With low-cost access to the global marketplace, it is no longer necessary to buy from only local vendors.

The focus of most e-commerce strategies today is twofold. “Customer-facing” e-commerce applications provide better customer service, order processing, and direct access to accurate marketing information. “Vendor-facing” e-commerce applications result in backward integration of the enterprise supply chain and create

efficiencies within the market. Not surprisingly, initial e-commerce strategies like translating printed catalogs online, automating customer service, and order processing were natural extensions of traditional business practices that were rooted in static pricing models.<sup>6</sup>

The ubiquity and ease of Internet access, and the tremendous power to exchange large amounts of information in real-time, is changing the traditional model of static pricing. Dynamic commerce models are themselves rapidly stratifying into distinct strategic business formats. Figure 5.0 illustrates how various market interactions between buyers and sellers shape the way companies integrate dynamic commerce technology into their Internet strategy.

Presently, the most common forms of dynamic commerce are auctions and exchanges. A supplier interested in selling off surplus inventory, for example, will benefit from a traditional ascending (English or forward) auction where the highest bidder wins. A simple variation of the auction mechanism (which has acquired the popular name “reverse auction”), where sellers compete for the allocation of business from a buyer and the lowest bidder wins, can be used for sourcing activities. For example, a manufacturer seeking an efficient means to source lower-cost raw materials and services can utilize reverse auctions to bid out procurement contracts. Finally, businesses looking for additional market liquidity or access to new trade and service partners have the option of participating in or creating market-making exchanges.

### Role of Exchanges in Dynamic Commerce

Exchanges solve fundamental and pervasive inefficiencies that hinder trade, such as the fragmentation of buyers and sellers, high search and transaction costs, and limited market information or highly variable demand. Traditional exchanges (e.g., stock or commodity exchanges) also provide liquidity and a standardized process for trading commodity-type goods where long-term, highly integrated relationships

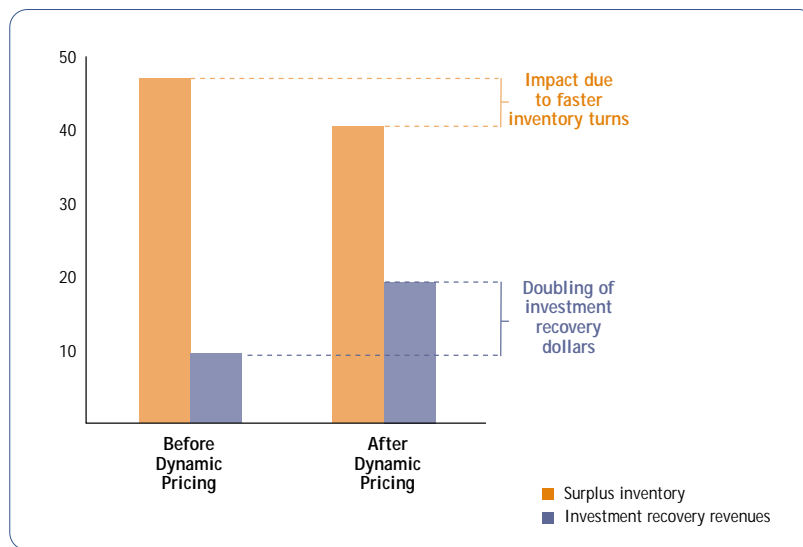


Figure 3.0 The gap between surplus inventory and net recoveries

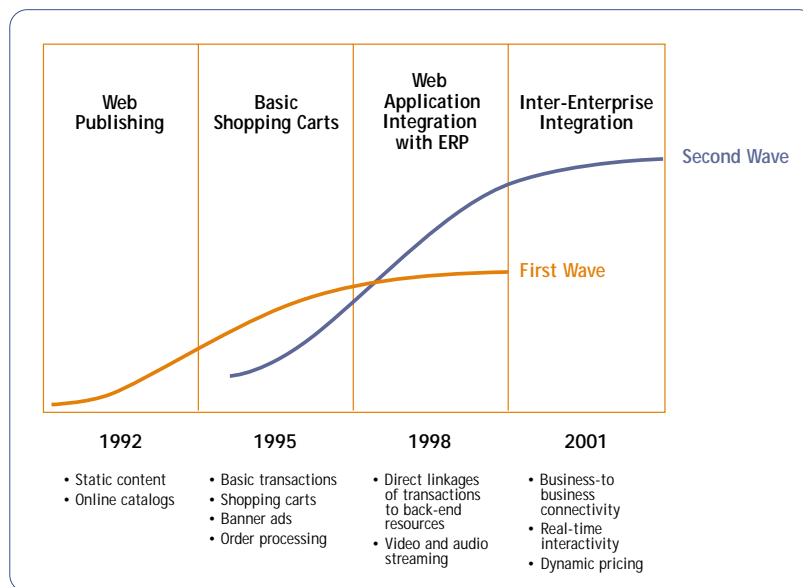
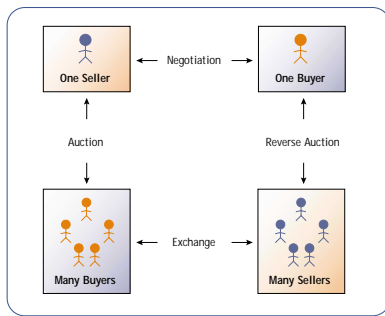


Figure 4.0 The Internet is ushering in a new era of B2B commerce

are not necessary. One prevailing exchange format in B2B e-commerce today is the bid/ask exchange model.

The bid/ask exchange is well known because this format has been used in the financial and commodity markets for decades. Bid/ask exchanges are simply

“double-sided” auctions, which can be described as markets where multiple buyers post offers to purchase (commonly known as “bids”), and multiple sellers post offers to sell (often at a given price, known as the “ask” or “offer”) for identical goods. Essentially, each buyer is hosting a



**Figure 5.0** Market interactions between buyers and sellers

reverse auction in which sellers compete, and each seller is hosting a forward auction in which buyers compete. In an exchange, all of these events are blended into a single forum; transactions result from the process of matching bids and offers. Time is a key differentiator between exchanges and auctions, as the interactions between participants in exchanges are continuous (e.g., the NASDAQ) while auctions are discrete events.

Variations of the bid/ask exchange model will quickly evolve to include complex, multi-attribute bidding as well as online negotiation formats that enable participants to match terms beyond price and other standardized valuation factors. The buyer often has special considerations such as where and when delivery must occur, but the seller may also require special handling instructions that limit shipping options. At this point, the buyer and seller must arrive at an agreement in order to complete the transaction. In a dynamic environment, they can negotiate these complex terms online either synchronously or asynchronously and arrive at mutually agreeable terms in addition to price.

### Role of Dynamic Commerce in E-Marketplaces

Auctions and exchanges have unique strengths for matching business needs. Exchanges are good forums for trading where the goods are relatively standardized and sufficient market mass and trade volume exists for a continuous trading environment. Auctions are well suited for selling and sourcing when the market characteristics of that good or service preclude

the creation of an exchange of the product qualities of the good or service favor an auction (i.e., an extremely complex sourcing requirement). In either event, dynamic commerce is an important component of electronic marketplaces that seeks to facilitate the full slate of transaction activities from requisition-to-pay, sourcing, and selling processes. These electronic marketplaces are being created to address cross-industry needs (horizontal marketplaces) as well as needs of specific industries (vertical marketplaces) that have unique business requirements.

### Market Requirements for Dynamic Commerce

Dynamic commerce is best suited to certain types of products, services, or markets. There are several unique characteristics that identify when dynamic commerce can occur (see Figure 7.0).

First, the products or services being traded should have one or more of the following qualities:

- Well-defined (clearly specified or widely understood)
- Relatively standardized (e.g., commodities or near commodities)
- Perishable (e.g., foodstuffs) or time-sensitive (e.g., airline seats)
- Depreciating value (e.g., computer components, automotive parts)
- Scarce (e.g., limited resources, art auctions)

Second, the marketplace will most likely have at least one of the following attributes:

- Uncertainty about the price exists due to imperfect information about the marketplace. This may occur in cases where the product is new, the level of supply and/or demand is unclear, or the market is highly fragmented.
- Sufficient competition exists among bidders or can be created with the introduction of new bidders. In some markets, a critical mass can be achieved with as few as five to seven bidders. It is becoming much easier to overcome the hurdle of insufficient competition with the global-

ization of trade and the widespread use of the Internet.

- A buyer or seller exists with sufficient market clout to make and stimulate competition.
- Geographical or physical constraints between buyers and suppliers create a high cost to participate in, or expand, markets through traditional means.
- Value chains exist in which middlemen create pricing or information inefficiencies.
- A significant variance exists between supply and demand, perhaps because of long production lead times after an order is made or large fluctuations in demand.

Finally, online exchanges are most likely to form in markets that are characterized by one or more of the following:

- Fragmented markets with sufficient numbers of both buyers and suppliers
- Large trading volumes
- Goods or services with well understood valuation standards (i.e., Arbinet's line quality), or those which can be evaluated on price alone (i.e., commodities)
- High search and transaction costs associated with traditional trading mechanisms
- Multiple stages of negotiation
- Markets that require frequent spot purchases

Not all products are suited for dynamic commerce; some specialized products require relationship-specific investments between buyers and suppliers in order to bring the product to market successfully. A complex electronic component that is specifically designed in conjunction with a key supplier to meet strict performance and quality requirements is one kind of example.

Other market situations where dynamic commerce may not be appropriate include:

- Small markets without sufficient breadth and volume of market demand
- Markets where the price of a commodity is well understood



- Monopoly situations where buyers negotiate directly with the supplier

### Future Vision

The future of e-commerce will bring a proliferation of digital marketplaces (both horizontal and vertical) in conjunction with new technologies that will further leverage dynamic commerce. Electronic agents will first scour the Web for buyers and suppliers, searching for goods on sale, or purchasing demand. More sophisticated agents may eventually compete in dynamic commerce markets on behalf of companies or individuals. Nevertheless, as prices approach their “true” market value, trade partners will increasingly compete on factors such as reliability, quality, and value-added services, and not just price.

The consensus among industry analysts is that the rapid growth of B2B e-commerce will be driven, to a large extent, by the adoption of trading exchanges and dynamic commerce. The early adopters of B2B dynamic commerce were mainly corporations that used auctions to improve the process for selling surplus inventory. Enterprises will continue to find new applications for online commerce solutions that match supply and demand such as reverse auctions for procurement. The real growth in dynamic commerce is expected to take place in emerging online marketplaces (see Figure 6.0). These marketplaces will be in a high-growth phase over the next several years as they try to build market share. By 2004, online marketplace revenues will reach \$1.5 trillion, over half of all B2B commerce. The challenge will be to attract and retain a critical mass of buyers and seller by creating value through content, commerce, and services. Dynamic commerce solutions will be critical to the success of online marketplaces because they allow transactions to be conducted according to market factors, can be tailored to specific industry needs, and can be packaged according to buyer preference. In fact, dynamic commerce is projected to grow at an average annual rate of 133%, to \$750 billion over the next five years.

## FORRESTER RESEARCH PROJECTIONS FOR B2B AND E-MARKETPLACE COMMERCE

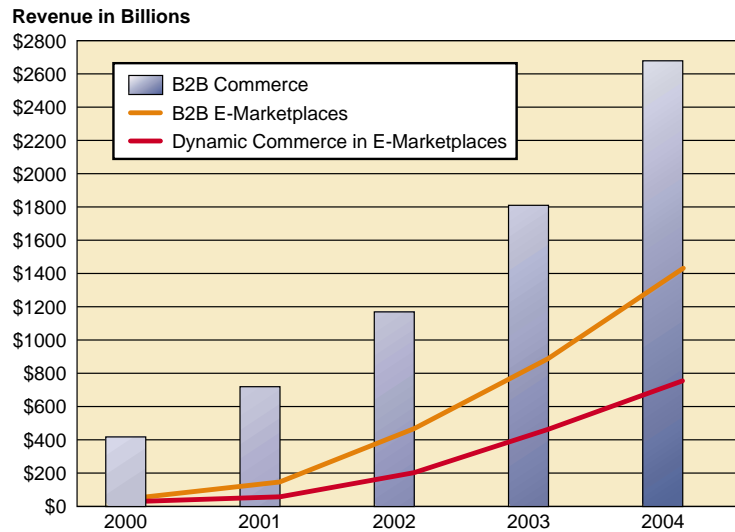


Figure 6.0 B2B and e-marketplace commerce projections (Source: Forrester Research)

Dynamic commerce engines will grow to support even more complex transaction formats, such as:

- Multi-attribute auction formats that use criteria in addition to price, quantity, and time (such as “condition of goods,” “delivery-time,” and “supplier performance history”)
- Complex multi-line RFQs and bid schedules
- Formats that allow a higher level of negotiation between buyers and sellers
- Continuous-matching formats where automated agents, comparable to current computerized stock-trading systems, perform the matching in real time

### Business Applications for Dynamic Commerce

Dynamic commerce is changing the very nature of how goods and services are traded along the enterprise value chain. At each step, businesses have direct and low-cost access to an extended network of trade partners. Figure 8.0 illustrates the market space and demonstrates how businesses that use dynamic commerce have positioned themselves within the enterprise

value chain.

This section explores the specific applications of dynamic commerce that enhance selling and sourcing activities, specifically in the context of e-commerce applications. First, it explores the seller-centric capabilities of dynamic commerce as a new pricing mechanism and channel for liquidating excess inventory. Next, it examines buyer-centric applications of dynamic commerce for the selection of long-term contracts and spot buys. Finally, it outlines potential benefits and risks to both the buyer and seller.

### Seller-Centric Application: Liquidation of Surplus Inventory

Major businesses have learned a difficult lesson about the cost of carrying excess inventory. Aggressive international competition and faster product life cycles have forced companies to rethink manufacturing processes, inventory management, and supply chain activities in an effort to adopt continuously leaner practices. Despite their successes, it remains impossible, if not economically impractical, to reduce

Attributes	Suitability	Example
Commodities and Near Commodities	High	Raw materials (coal, precious metals; food airline seats, services, transportation, equipment)
Standard components & materials	High	Valves, pipe, electronic components
Custom products requiring low or common tooling	Medium	Stamped metal parts, machined metal parts, chemicals
Complex/specialized tooling	Low	Specialized electronic components requiring close collaboration during design and production

Figure 7.0 Attributes that identify when dynamic commerce can occur

surplus inventory levels to zero. This issue is not a small one. On average, businesses in the United States carry approximately \$18 billion in surplus inventory annually, an amount equivalent to about one-tenth of all finished goods<sup>7</sup>.

While it is easy to think of surplus inventory in the narrow context of unsold, obsolete, or refurbished goods, this categorization actually encompasses a broader range of goods. For discussion purposes, surplus inventory can be divided into two basic product categories. The first category consists of those goods or services that are perishable – items whose usefulness and functionality last for a finite amount of time. In the event they are not used prior to their expiration, their value diminishes to zero. These types of products include chemicals, pharmaceuticals, airline seats, or advertising space. If a company holds these products for too long, the products will expire before being sold, resulting in lost revenues and, potentially, disposal costs.

The second class of surplus inventory includes goods whose value depreciates with time yet maintain some salvage value. Computers, electronic devices, and stamped metal parts are prime examples. As more powerful and improved devices are introduced to the market, older models become less desirable and potentially obsolete. The challenge to the selling company

then becomes to accurately predict the rate of technological change and forecast the impact this change will have on product demand – an extremely difficult task.

The process for selling surplus inventory is also inefficient. Many companies still trade orders by phone and fax, a slow and labor-intensive process. In addition, when companies yield control of inventory to third party intermediaries, they lose their influence over where and at what price the merchandise is sold. Although some businesses need inventory to protect effectively against variability in demand, a more efficient way to manage excess inventory does exist.

Dynamic commerce offers a more effective solution to this problem. Rather than selling off surplus inventory to third party intermediaries, companies are now using the Web to auction surplus goods directly to customers. Figure 9.0 illustrates the kinds of participants who are buying through this channel. By leveraging the inherent flexibility of the Web to target a select group of highly motivated buyers or extend the reach of businesses across a maximum number of participants, dynamic commerce has a distinct advantage in generating competition and market liquidity. In addition to realizing improved returns and more efficient processes, companies are retaining greater control over their brand, extending a

valuable service to their customers, gaining more valuable market insight, and reducing costs.

### Seller-Centric Dynamic Commerce Applications: Benefits & Risks

Seller-centric dynamic commerce applications carry risks and benefits to both buyer and seller.

#### Benefits to Seller (company):

- Enhanced revenues
- Lowered costs and improved efficiency
- Access to a larger and more diverse group of buyers
- Real-time access to market demand information
- Stronger relationships with trading partners
- New channel to dispose of aged, unused, or idle assets

#### Benefits To Buyer (Trade Partner):

- Opportunity to lower price
- Lowered cost and improved efficiency
- Access to a larger and more diverse group of suppliers
- Better information about the market conditions
- Ability to participate in multiple auctions concurrently
- Means to smooth out supply and demand shocks

#### Risks To Seller (Company):

- Yield control over pricing to market mechanisms
- Exposure to new competition
- More complex logistics

#### Risks To Buyer (Trade Partner):

- Pay more than market value
- Credibility of product and/or supplier
- Access to customer service

#### Note

A more detailed description of the benefits and risks of seller-centric dynamic commerce applications is available at <http://appell.CRMproject.com>.

#### Buyer-Centric Application:

## Use of Dynamic Commerce for E-Sourcing

A potentially more significant application of dynamic commerce lies in the field of sourcing and procurement; it applies to both long-term supplier contracts and unpredictable spot buys. Several businesses have used dynamic commerce solutions in common procurement activities such as supplier consolidation, annual negotiations, and corporate-wide projects to gain savings through purchasing activities. These solutions can be applied both to strategic (or direct) goods and services related to a buyer's manufacturing operations, as well as to indirect purchases (commonly called Maintenance Repair and Operating resources, or MRO). Although there are clear differences concerning financial details and procurement methods, the fundamental value proposition is identical for all of these purchasing methods.

Many companies already use simple forms of competitive pricing for sourcing or supplying goods. Typically, the process requires sealed bids from prospective suppliers that are evaluated by the buyer. The buyer then selects one or more suppliers and negotiates detailed terms for specific contracts. This process can be labor-intensive for both parties and may result in contract terms that vary from supplier to supplier based on the market position of the supplier and the negotiating skills of both the trading partners.

Such varied contract terms may result from incomplete market information. Buyers often rely on suppliers for detailed product information. Since many supply industries are fragmented, buyers primarily look to suppliers with whom they have worked, or discovered in targeted advertising, trade journals, or aggregated catalogues. But supplier productivity can vary widely and is continually changing, making it very difficult for buyers to gather, organize, and evaluate vendor performance on an ongoing basis. As a result, buyers come to rely on outsourced strategic sourcing initiatives, where third parties periodically visit an organization, dig through vast

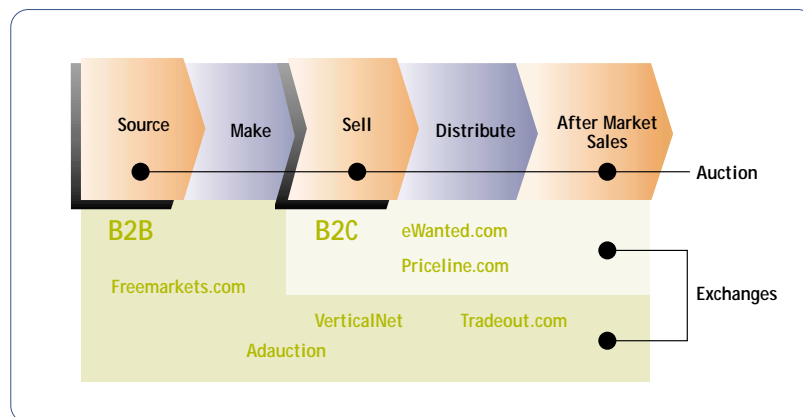


Figure 8.0 How businesses that use dynamic commerce have positioned themselves

amounts of transactional information, re-check the supplier landscape, and re-source long-term contracts with suppliers for key commodities.

By using dynamic commerce solutions, a buyer can automate the RFQ tender and bid processes. The Internet gives buyers the ability to eliminate geographic and cost barriers to potential suppliers, and to include additional suppliers into the bidding process at a very low cost. A real-time auction greatly increases competition in the marketplace by giving suppliers instant feedback on where they stand along with the opportunity to submit new bids and win the contract.

Historically, the economic leverage provided by competition has been most beneficial in markets where the products or services are commodities or near commodities, which means that the goods are well standardized or consistently specified. Coal and printed circuit boards are good examples. Between 1995 and 1998, companies that implemented reverse auctions for sourcing realized an average cost reduction of 17% as compared to previous contracts for similar goods<sup>11</sup>. Sprint used reverse auction services to source long-term contracts, which cut proposal cycle times by 70% and led to significant cost savings on \$75 million worth of telecommunications services contracts. Visteon Automotive Systems achieved “multi-million dollar savings” on

contracts for printed circuit boards by hosting the bidding process in a reverse auction format.

### Buyer-Centric Dynamic Commerce Applications: Benefits and Risks

Buyer-centric dynamic commerce applications also carry benefit and risk to buyer and seller.

#### Benefits To Buyer:

- Opportunity to create or increase competition for buying dollars
- Better information about the marketplace
- Enhance the RFQ process and compress cycle time
- New supply management capability

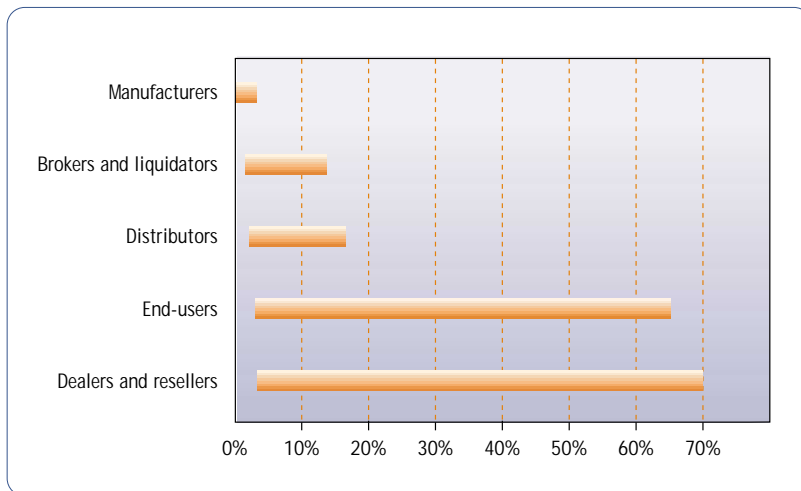
#### Benefits To Seller:

- Access to new customers
- New and timely information on state of the market
- Automated RFQ process
- New demand management capability

#### Risks To Buyer:

- In the event that sufficient competition does not materialize, the price could be higher than the buyer expected
- Risks of taking on new suppliers
- Potential effects on decision-making and relationships





**Figure 9.0** The kinds of participants who are buying through this channel

#### Risks To Seller:

- In the event that sufficient competition exists to ignite a bidding frenzy, the price may fall below that desired by the vendor
- Risks of taking on new buyers
- Potential effects on decision-making and relationships

#### Note

A more detailed description of the benefits and risks of buyer-centric dynamic commerce applications is available at <http://appell.CRMproject.com>.

#### Conclusion

As businesses engage in the “e-economy,” they face significant challenges and opportunities. Widespread, low-cost access to trade and service partners allows

businesses to create a vast, yet tightly integrated, supply chain network and realize tremendous value.

To thrive in the e-economy, businesses must capitalize on the strategic advantages that come from speed and information. Businesses must embrace capabilities that allow them to optimize all aspects of their expanding reach to customers and business partners. Sourcing and selling are two key elements of this network. In each of these activities, dynamic commerce clearly creates significant value for both buyers and suppliers.

The current wave of e-commerce is dynamic commerce, which delivers advantages of speed and information to innovative businesses. Fast-moving enterprises are proving that dynamic commerce, in the

form of auctions or exchanges, can be a valuable piece of a company’s overall e-commerce strategy – a strategy that can result in increased revenues, lower costs, and improved processes.

A glossary of the terms discussed in this paper is available at <http://appell.CRMproject.com>. Andersen Consulting and Moai engaged in joint research and development of this report. The data on which this report is based were not independently verified. Accordingly, the results may reflect inaccuracies in the underlying data. Other methods or approaches to the study may have yielded different results. Copyright ©1999 by Andersen Consulting and Moai. All rights reserved.

#### Footnotes

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- 11 These savings are averaged over nine different commodity types including: plastic molded parts, metal stampings, metal castings, metal machinings, chemicals, pole line hardware, commercial valves, corn sweetener, and printed circuit boards.